



BRIEFING for the PRESIDENT'S COMMISSION on the UNITED STATES POSTAL SERVICE

January 8, 2003



Outline

- **Background**
 - **Current Overview**
 - **Transformation Plan**
-



Postal Reorganization Act of 1970

Universal Service Mandate:

Access and delivery to virtually everyone, everywhere, everyday.

Statutory Requirement:

“ [The Postal Service] shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”



Postal Reorganization Act of 1970

Universal Service Mandate:

Access and delivery to virtually everyone, everywhere, everyday.

Business Model Premise:

Moderate volume growth and postage rate increases at or below the economy's rate of inflation would finance universal service and the ever-expanding delivery network.



Universal Delivery Service



**1.7 Million New Deliveries
At
500 Deliveries Per Route**



**3,400 New Carrier
Routes**



**4,800
New
Carriers**



**80 New Delivery Facilities
at \$5.0 Million Each**

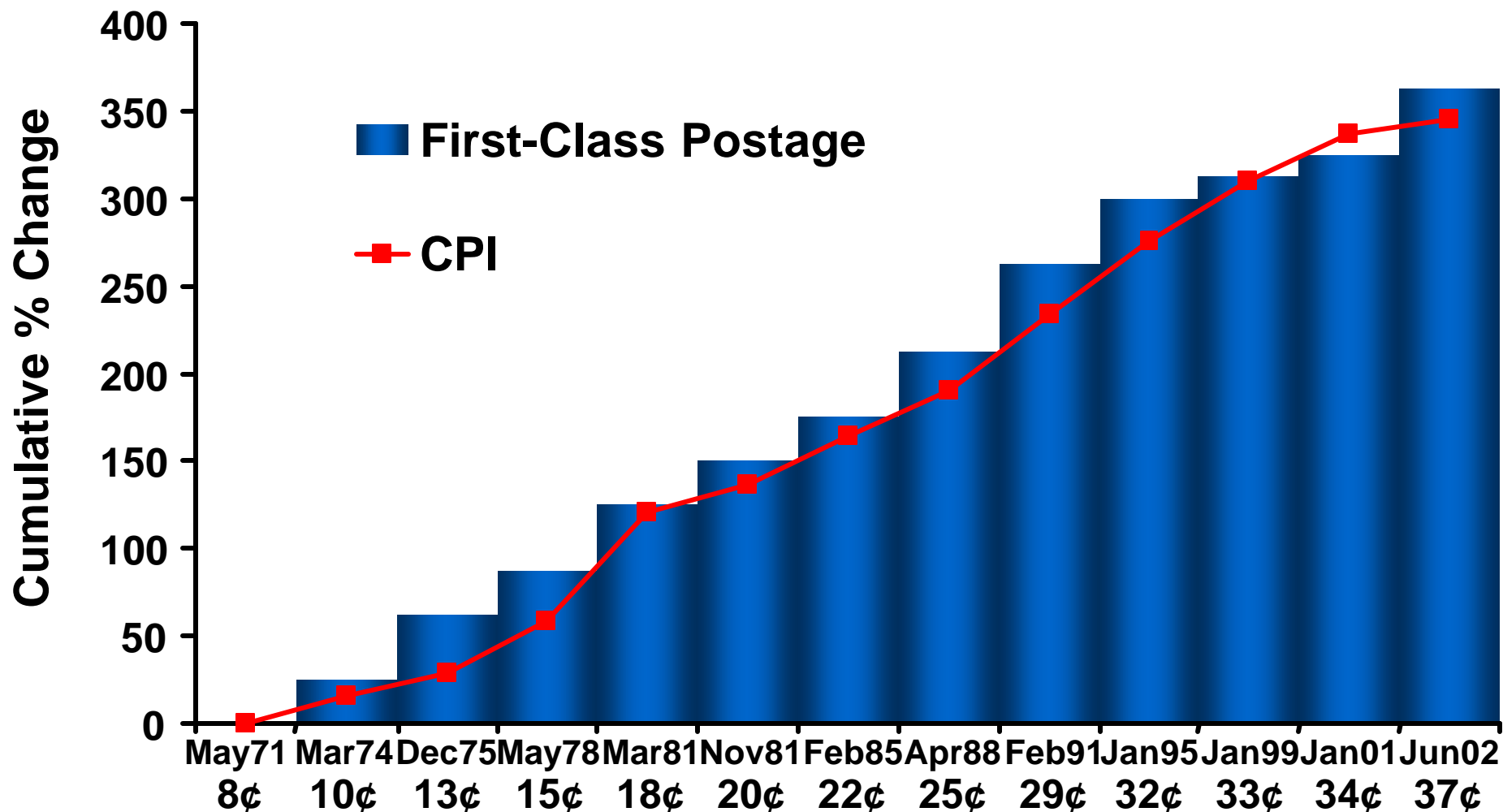


1971 – 2002 Comparisons

	<u>1971</u>	<u>2002</u>	<u>%Change</u>
Delivery Points (Millions)	81	139	72%
Volume (Billions)	87	203	133%
Employees (Thousands)	731	854	17%



CPI vs. First-Class Postage Rates





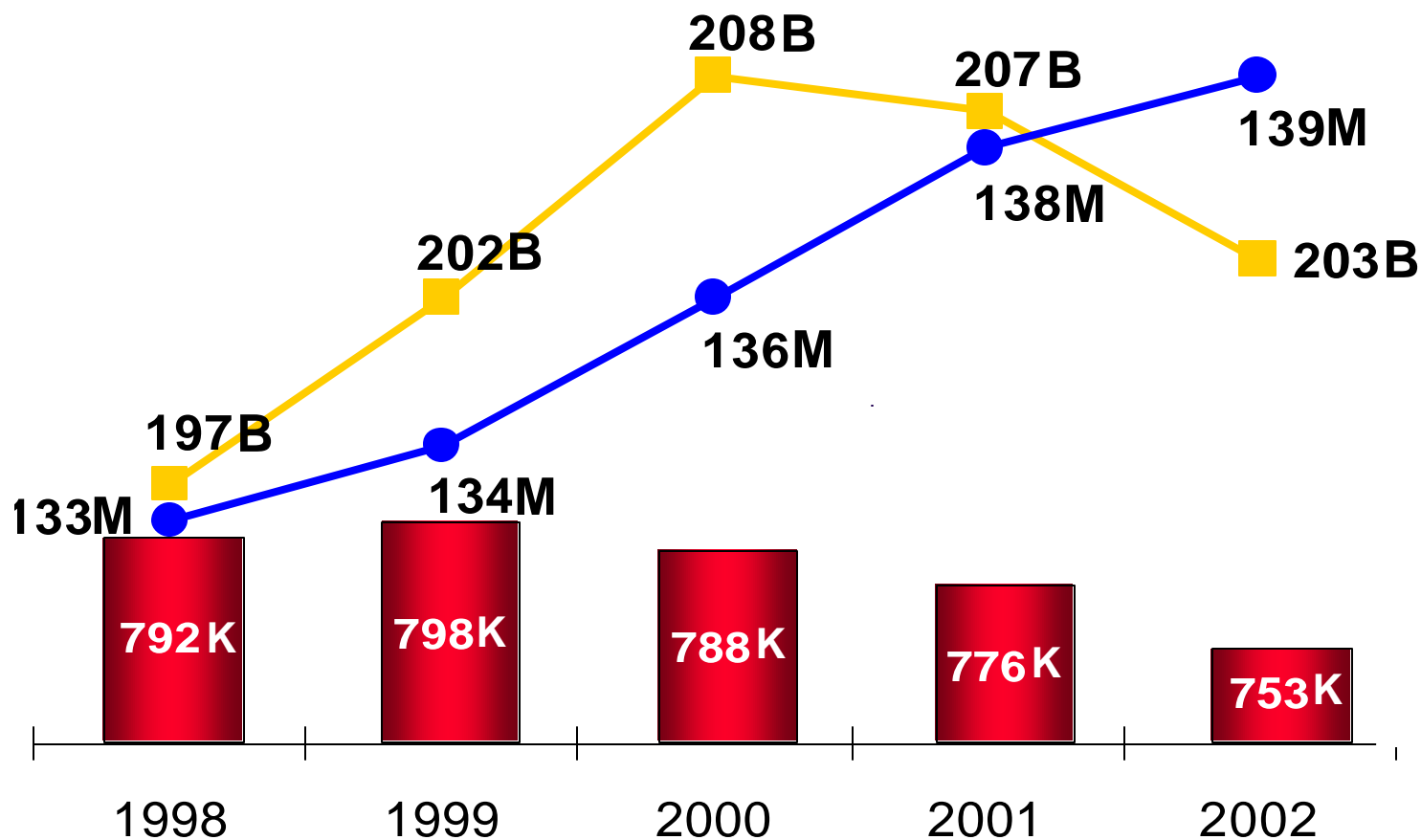
Post Office Department and Postal Service

<u>Financial Results</u> (Cumulative)	Post Office Department <u>1942-1971</u>	United States Postal Service <u>1972-2002</u>
Revenue	\$90	\$1,108
Expense	<u>109</u>	<u>1,114</u>
Deficit	(\$19)	(\$6)
Revenue/Expense	82.6%	99.5%

\$Billions



Summary Statistics



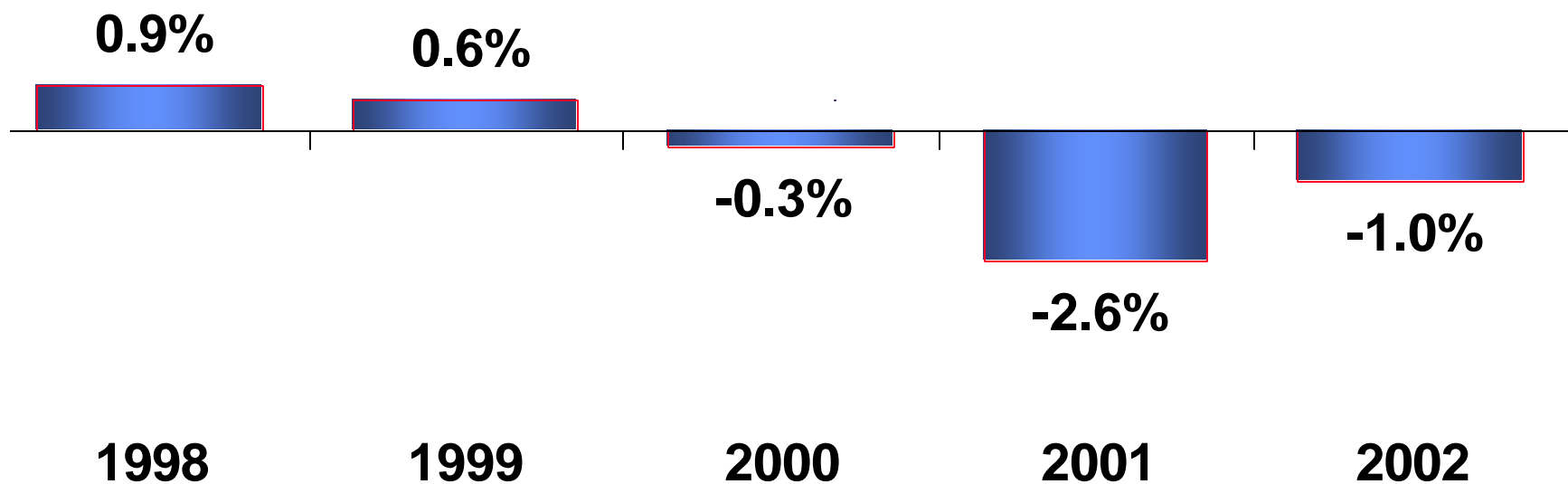
 Career Complement

 Mail Volume

 Delivery Points



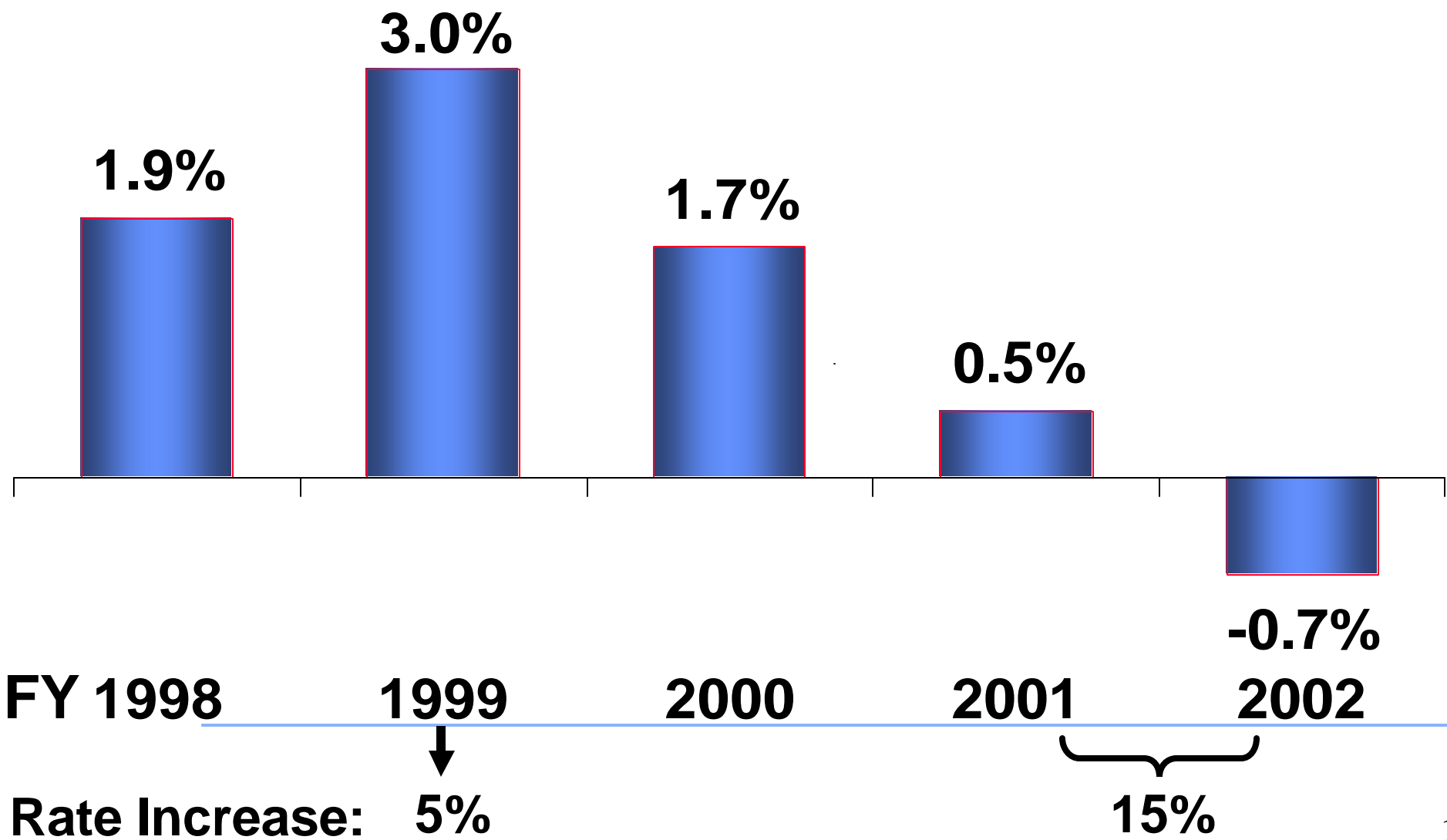
Annual Net Margin



Net Margin = Net Income (or Loss) / Revenue

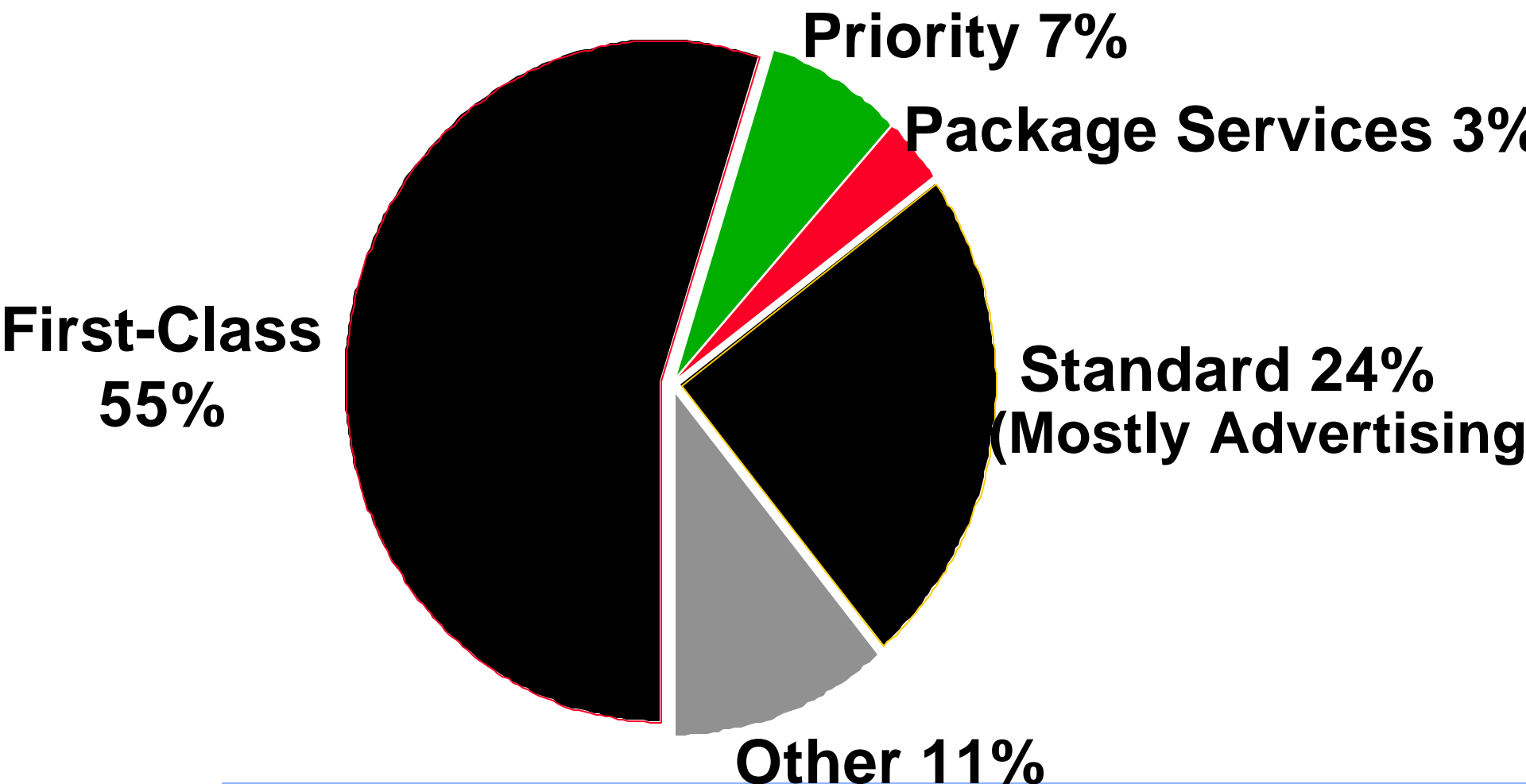


Growth in Revenue Per Delivery Point



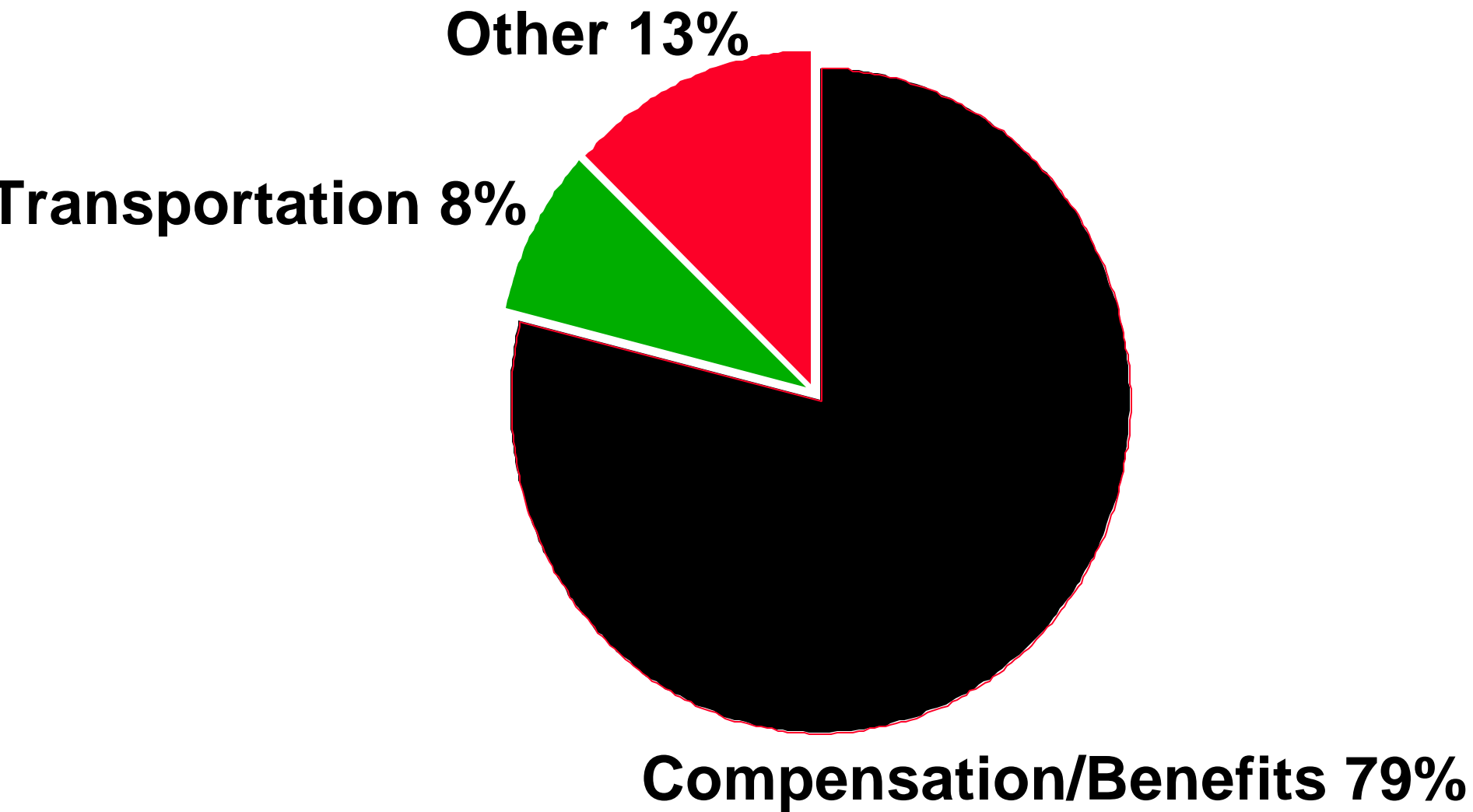


Revenue Composition - FY 2002





Expense Composition - FY 2002





FY 2001 Expenses



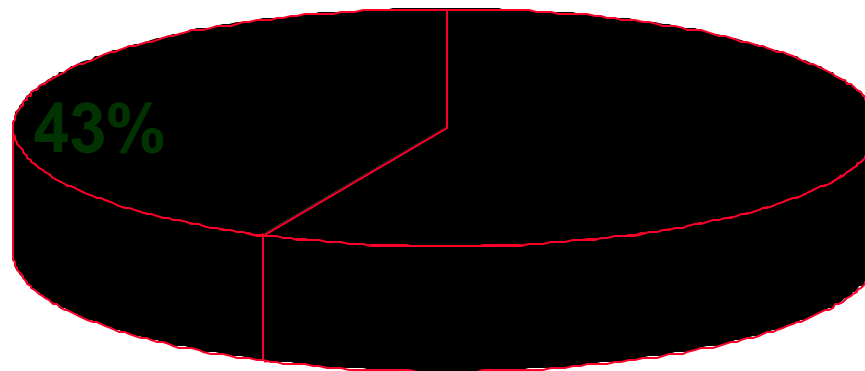
■ "Fixed" \$29B

■ Volume Variable \$38B



“Fixed” vs Volume-Variable Costs FY 2001

FY 2001 Expenses



■ **"Fixed" \$29B**

■ **Volume-Variable \$38B**

“Fixed” Costs include:

- 38,000 Post Office, Station, and Branch Operations
- Del. Rte. Coverage - 240,000 Delivery Rts.
- 215,000 Vehicles
- Retirement Costs
- Overhead

Volume-Variable Costs Include:

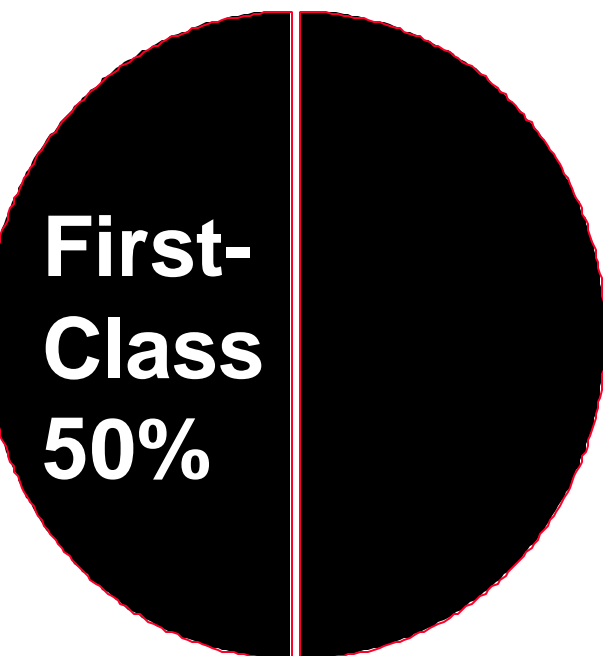
- Transportation
- Mail Distribution Work Hours
- Mail Containers
- Fuel
- Retail Transactions
- Delivery Carrier Prep in Office



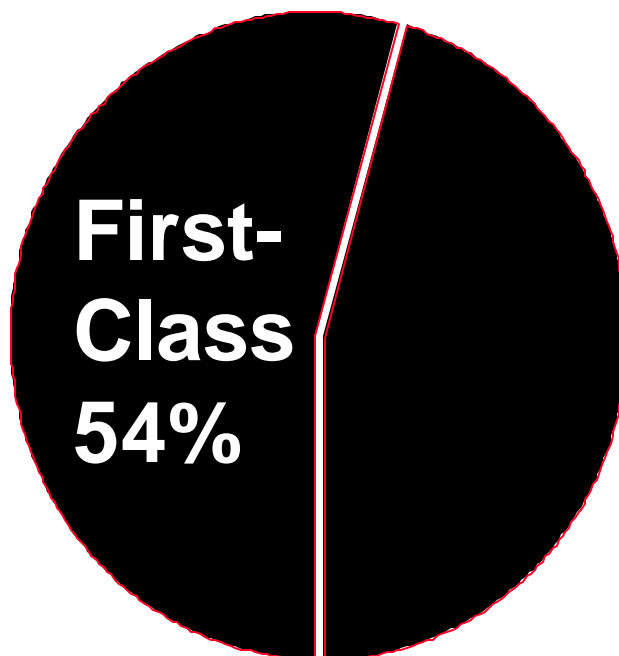
First-Class Mail

Major Contribution to “Fixed” Costs

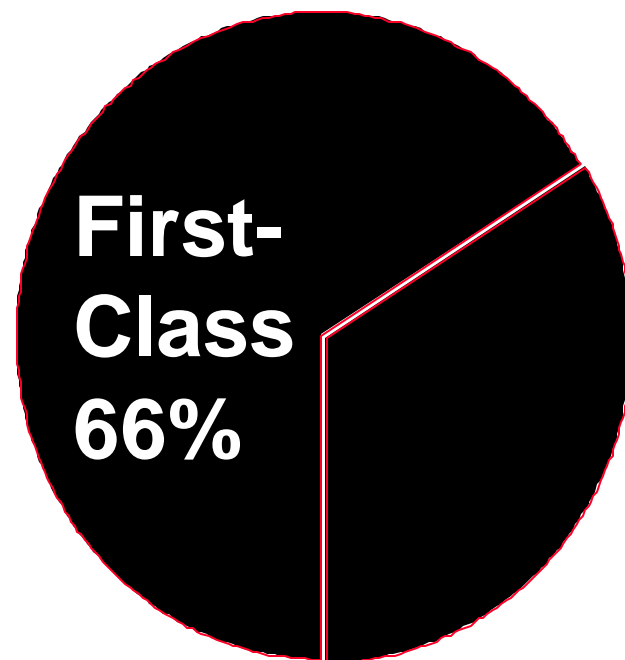
Volume



Revenue



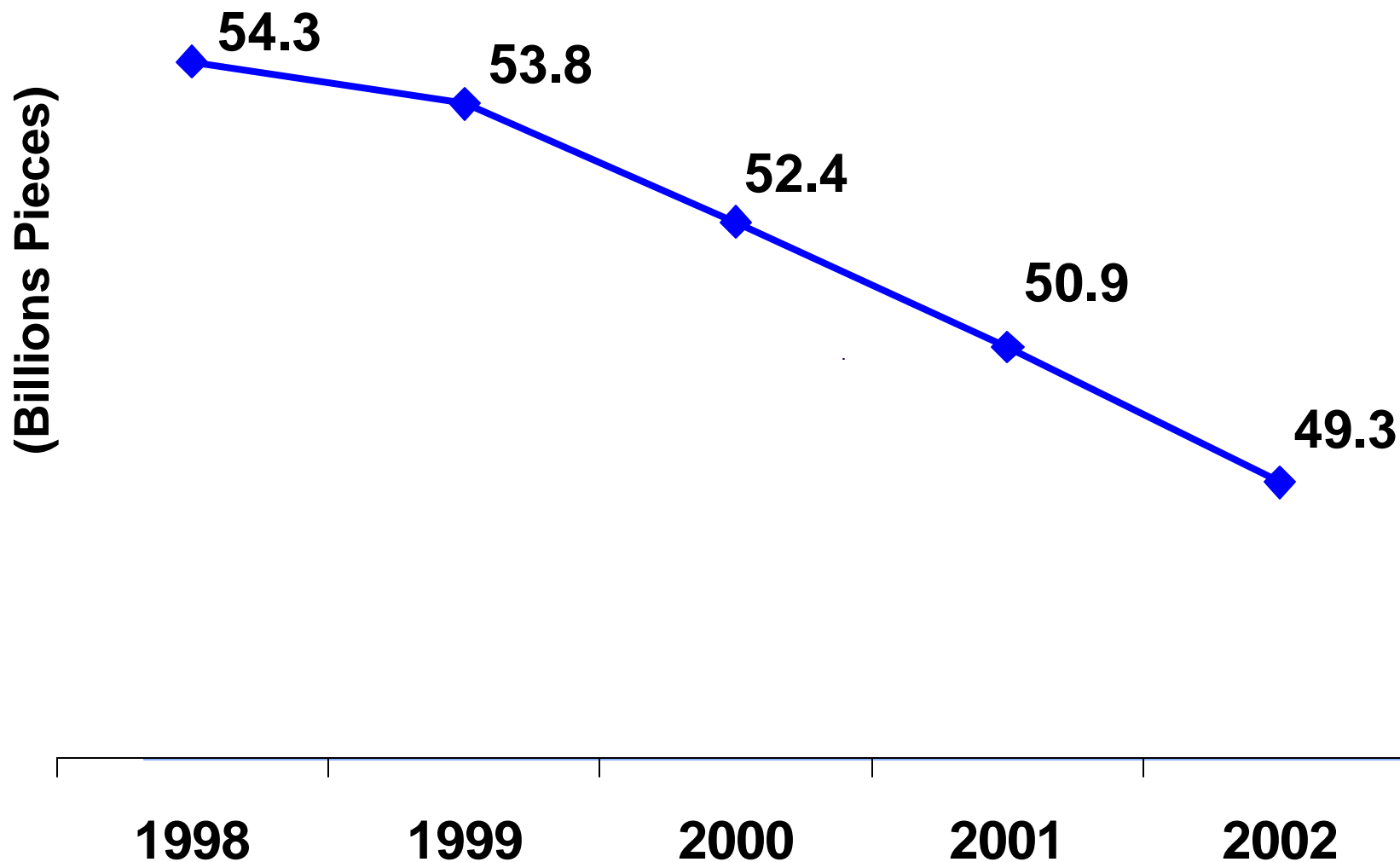
**Contribution to
“Fixed” Costs**



FY 2001



First-Class Single Piece Letters





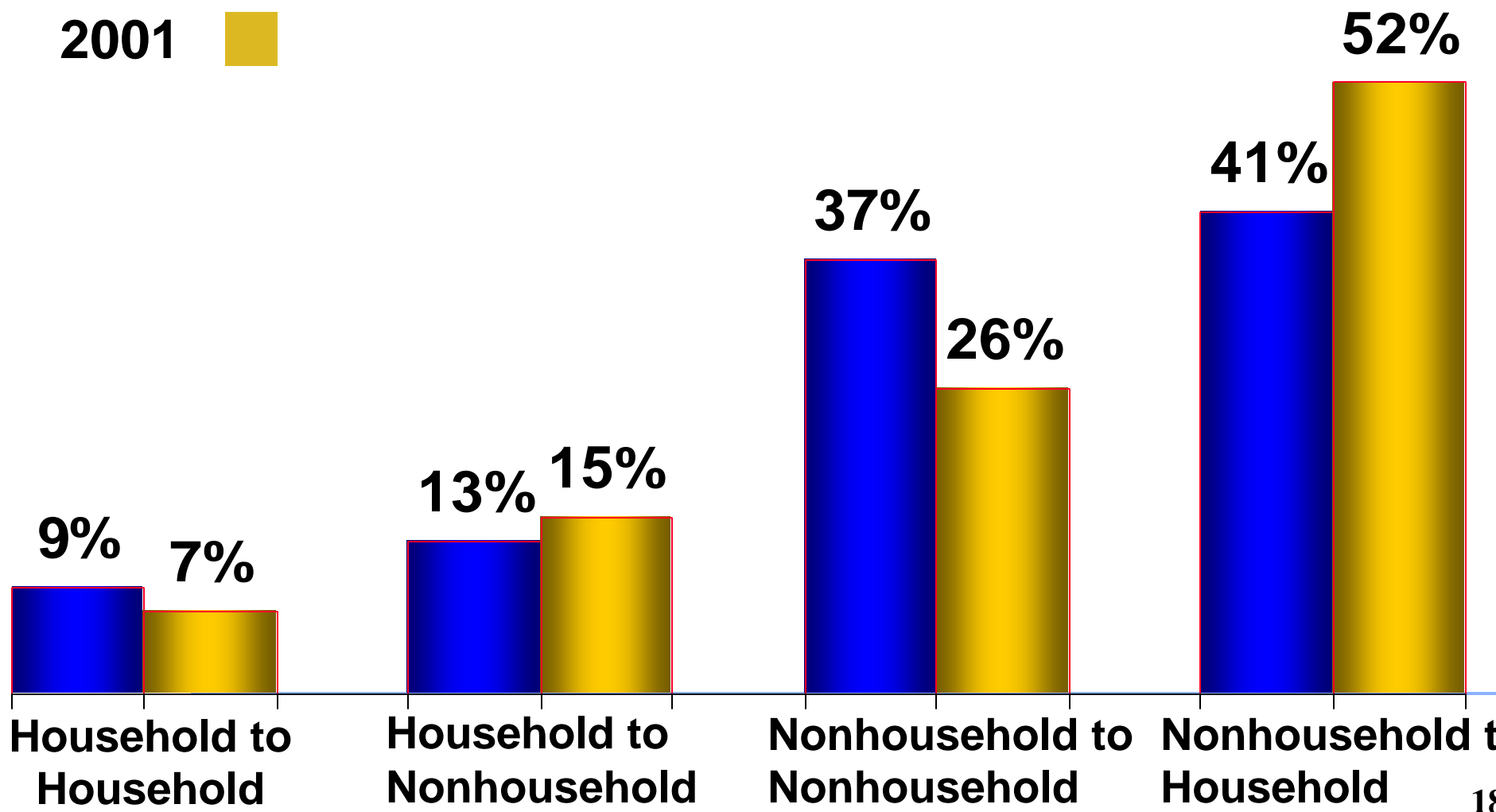
First-Class Mail-Sector Analysis

Source: Household Diary Study

1987

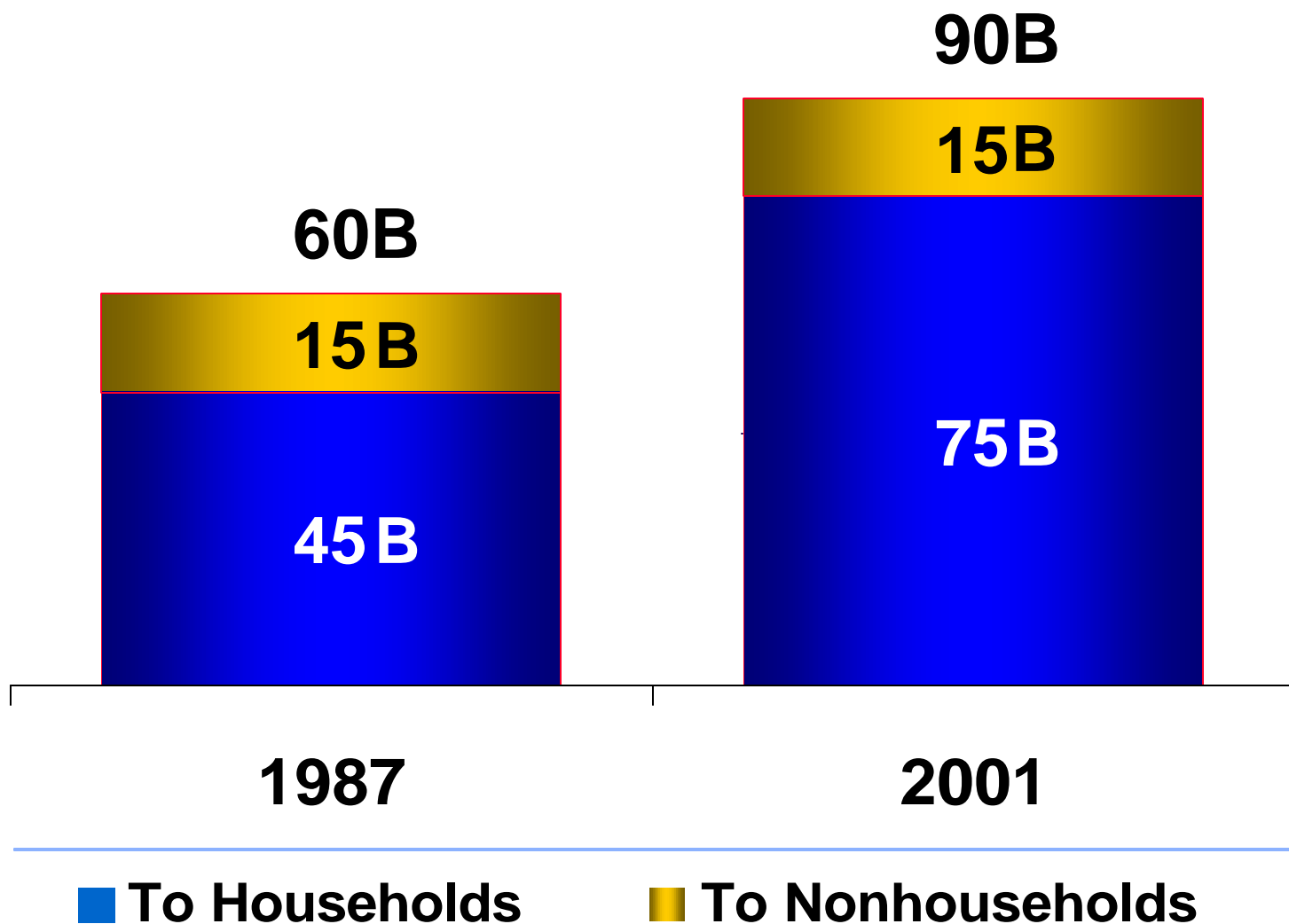


2001





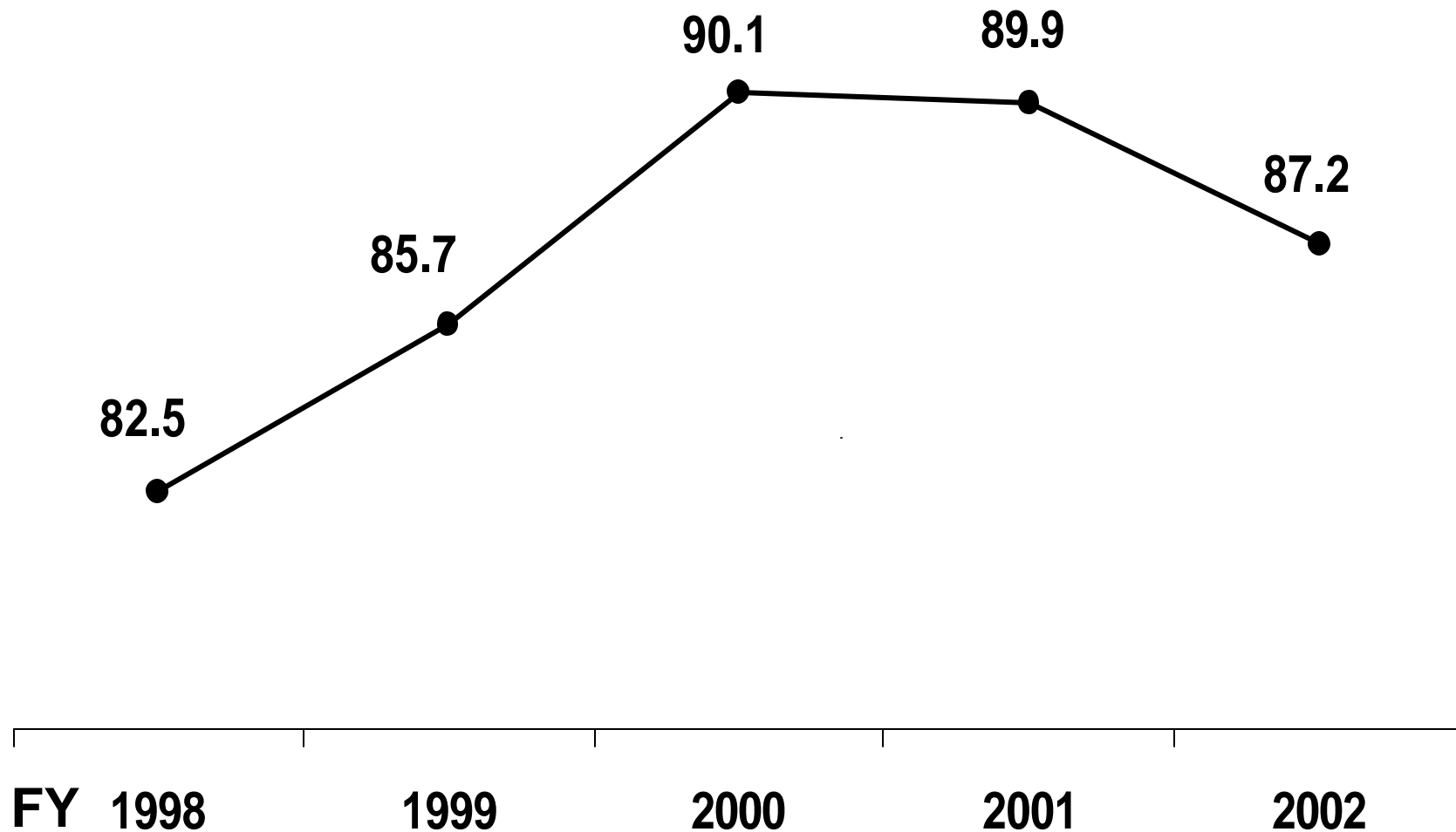
Standard Mail Volume 1987 and 2001





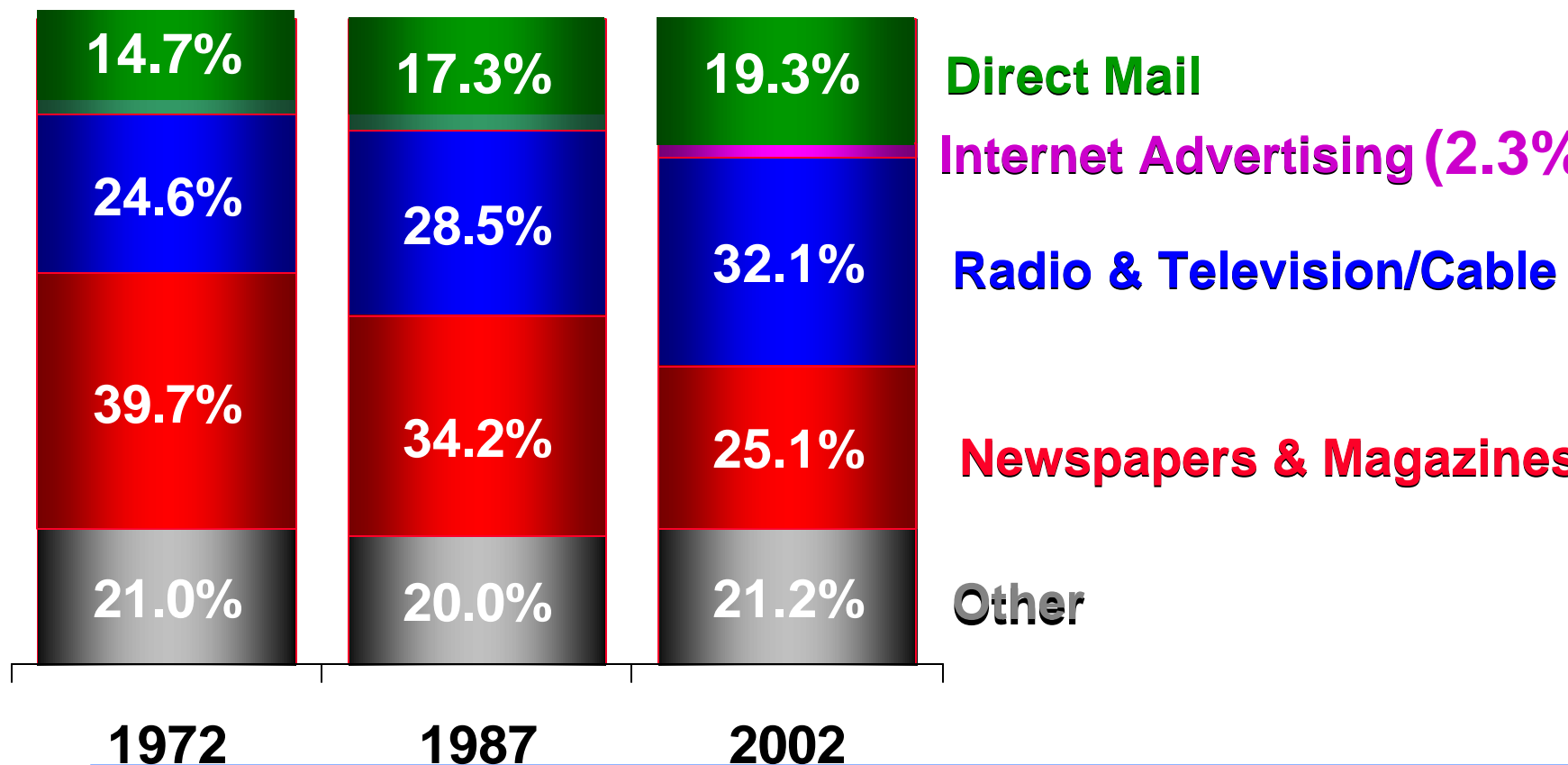
Standard Mail Volume

Billions of Pieces





Standard Mail Volume Market Share 1972- 2002



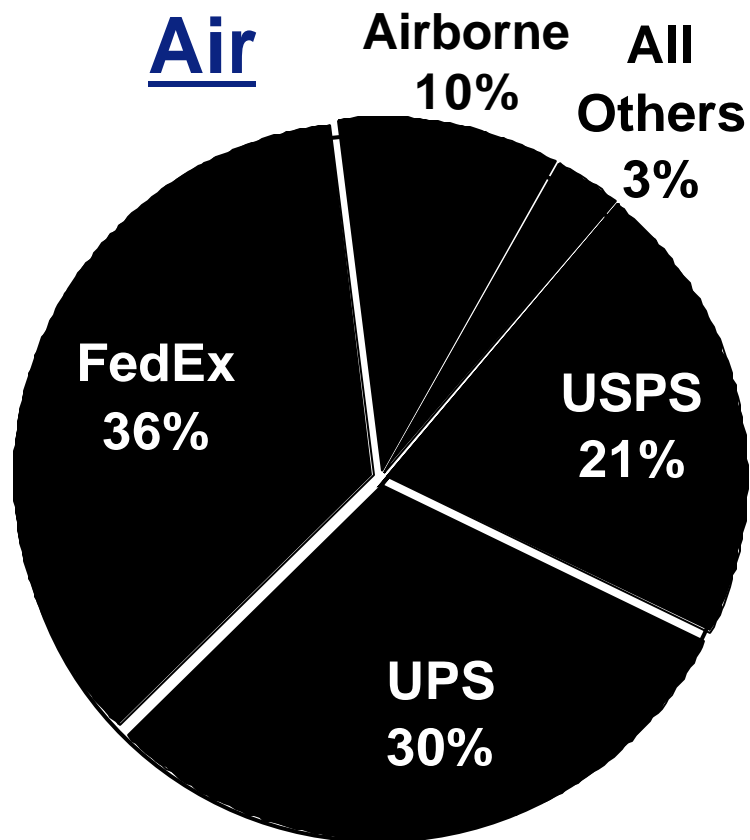
Source: McCann-Erickson WorldGroup



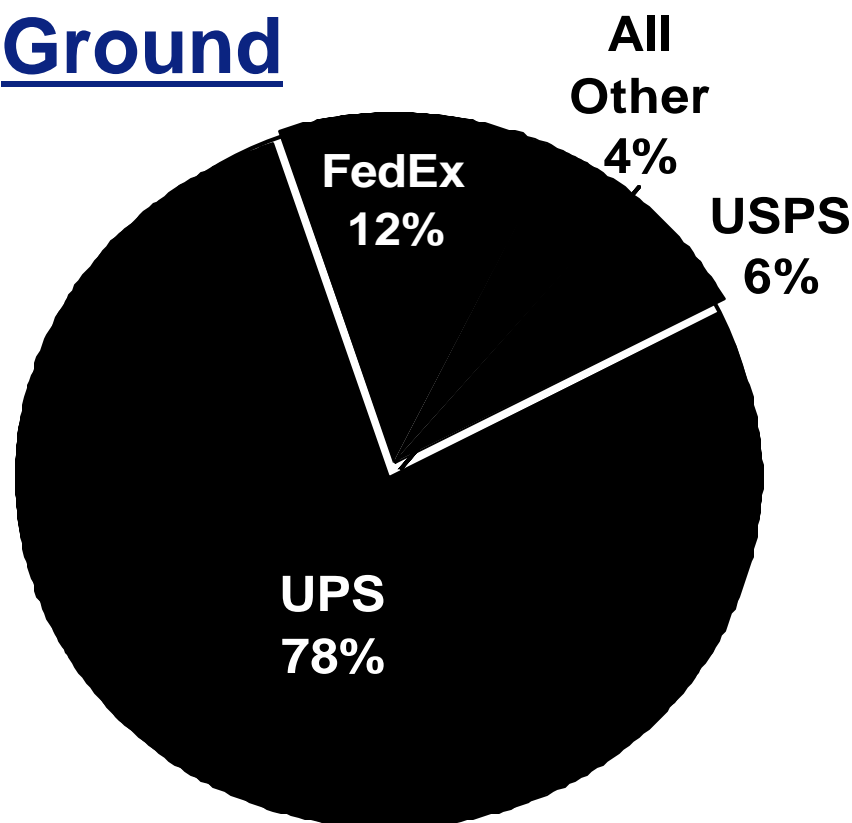
Package Services

Revenue Share FY 2001

Air



Ground



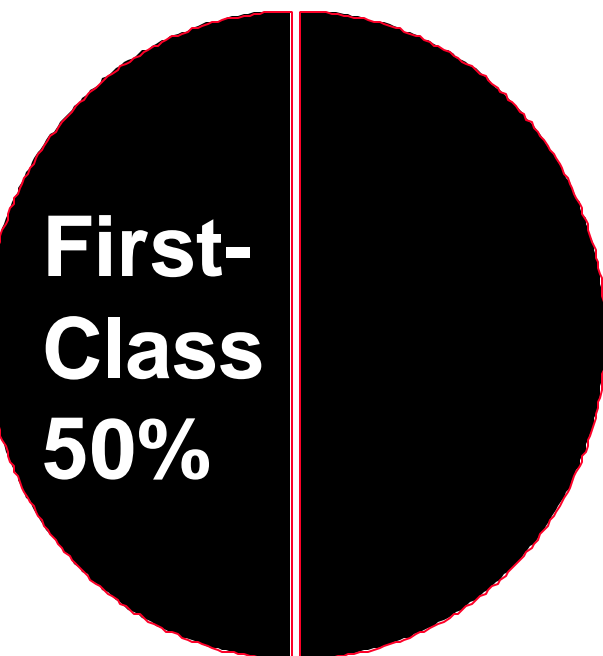
Source: Colography Group



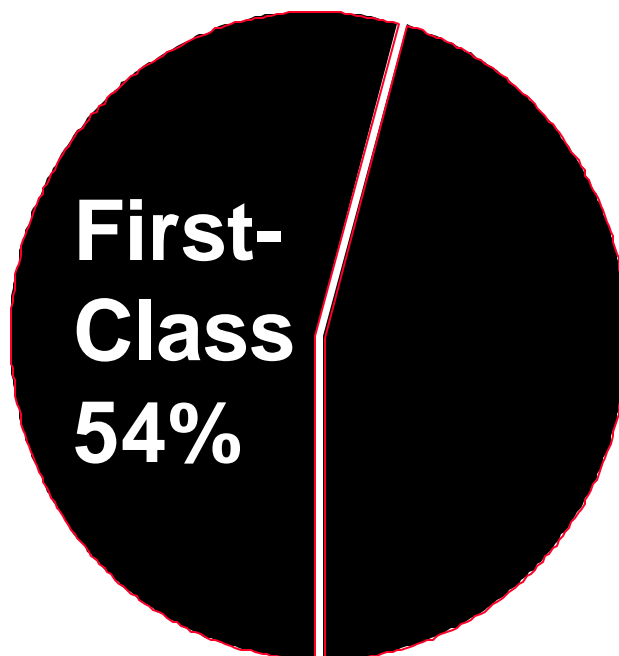
First-Class Mail – FY 2001

Major Contribution to “Fixed” Costs

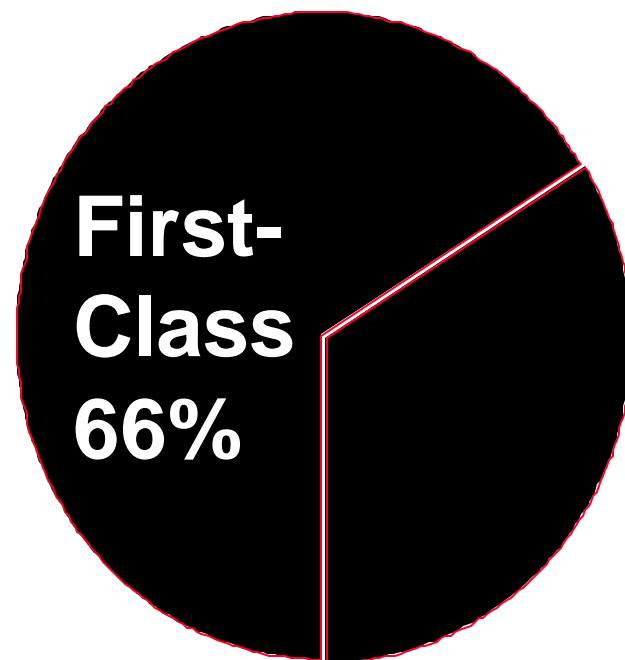
Volume



Revenue



**Contribution to
“Fixed” Costs**





Financial Effect

Volume Necessary to Replace Contribution From \$1 Billion of First-Class Mail Revenue

	<u>Volume Increase</u>	<u>% Growth</u>
Standard Mail	7.1 B	8%
or Priority Mail	313 M	26%
or Express Mail	50 M	70%
or Parcel Post	1.5 B	465%



Competition and Technology

First-Class Mail

- **Business eMail**
- **Electronic Bill Payment**

Standard Mail

- **Print/Broadcast Media**
- **Internet Advertising**

Periodicals

- **Internet News Sources**
- **Lifestyle Changes**

Packages

- **No Longer the Only Nationwide Package Service**



Strategy: Achieve Lowest Combined Cost

Progression of Customer Worksharing Options

1970's

- **Presorted Bundles**

1980's

- **Presorted Bundles**
- **Prebarcode Pieces**

1990's

- **Presorted Trays**
- **Prebarcode Pieces**
- **Dropship**

**\$15 Billion Current
Annual Discounts**



Strategy: Achieve Lowest Combined Cost **Postal Operations**

1970's

**Mechanized
Mail
Processing**

1980's

• **Automated
Letter
Distribution**

1990's

• **Automated Flat
and Parcel
Processing**

• **Delivery Point
Sequencing**

2000's

• **“Network
Optimization”**

1970 Postal Reorganization

- **Capital Investment Financing**
- **Self-Directed Research**
- **Longer Term Planning**



Pricing Cycle

Five Months

Preparation

Ten Months

Rate Case Litigation

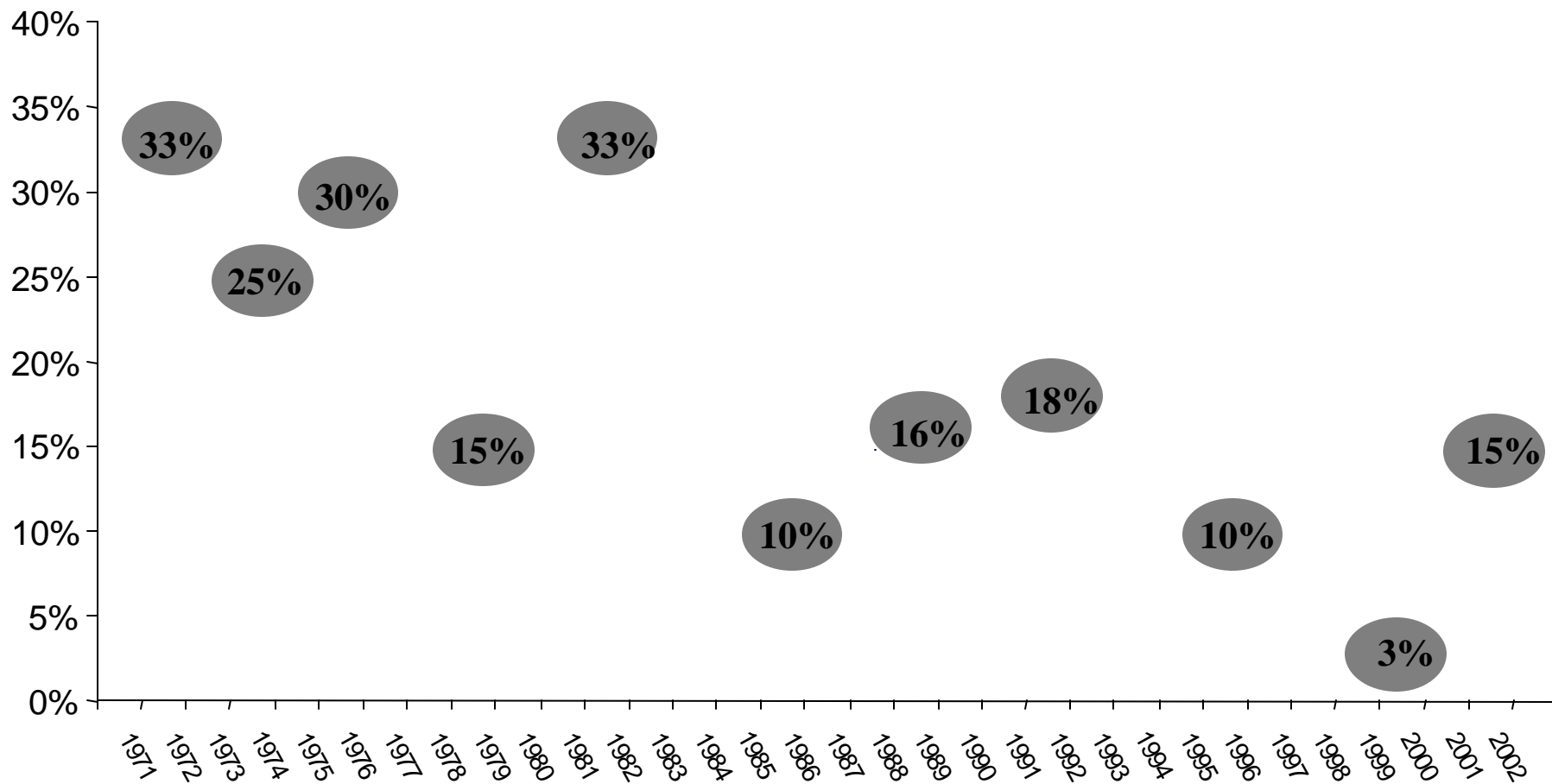
**Three
Months**

Governors' Consideration

Implementation



Rate Increases and Economic Conditions



- First-Class First Ounce Rate Increase
 - Average Rate Increase – All Classes – 2001 and 2002 increases implemented in 3 steps
- Recessions

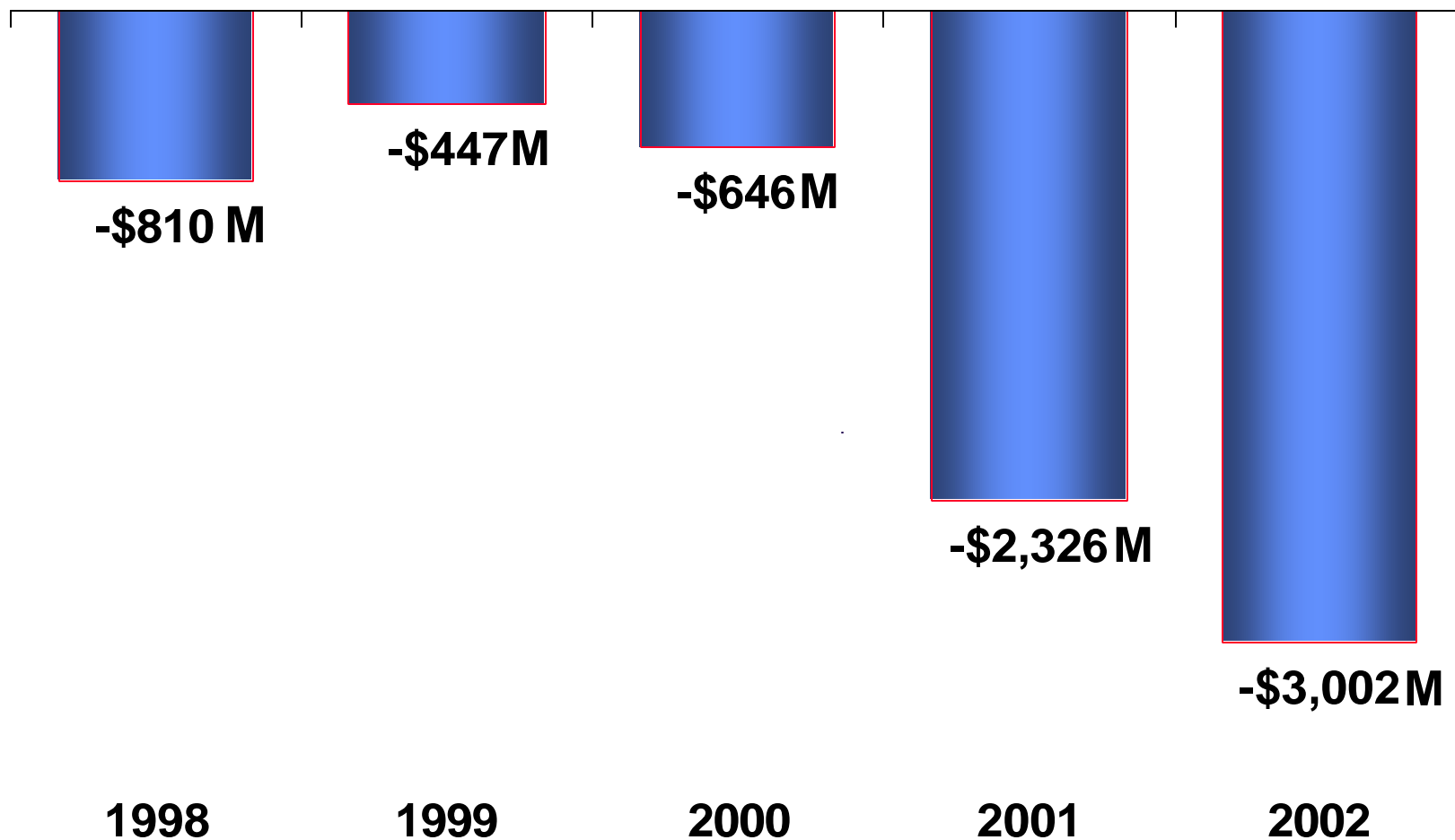


Financial Stress

Debt	\$ 11 B
Other Liabilities (Excluding CSRS)	\$ 19 B
Retiree Health Benefits Obligation	(\$40 – 50 B)
Cumulative Losses (Since 1971)	\$ 6 B



Financial Stress - Equity





TRANSFORMATION PLAN



Transformation Plan

- **“Push the Envelope”**
- **Legislation – Short Term**
 - **Public Policy Issues**



Transformation Plan

“Push the Envelope”

- **Growth**
 - **Efficiency**
 - **Performance Based Culture**
-



Transformation Plan – Results to Date

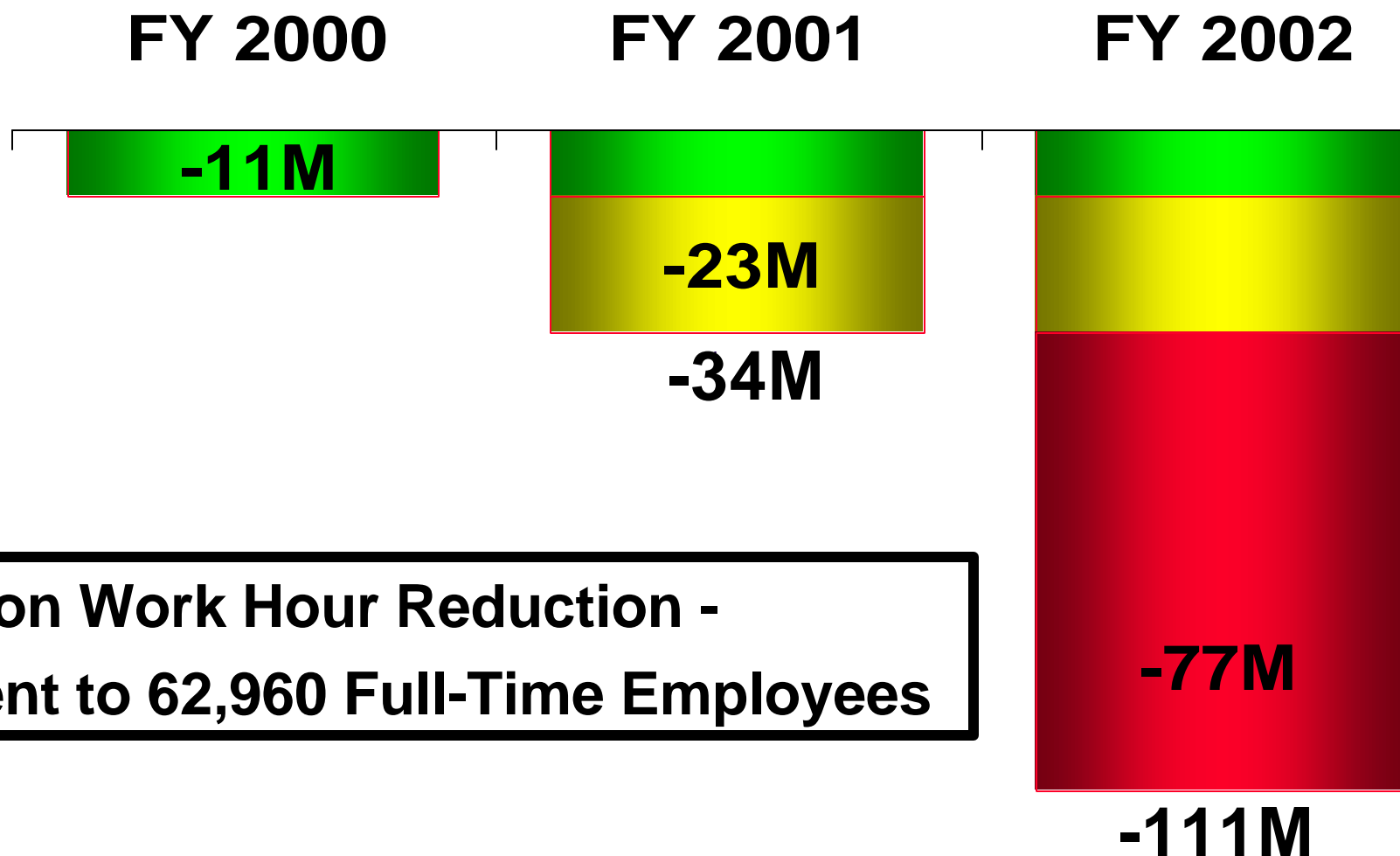
Service

- **Externally Measured**
- **Service At Record Levels**



Transformation Plan – Results to Date

Work Hour Reductions



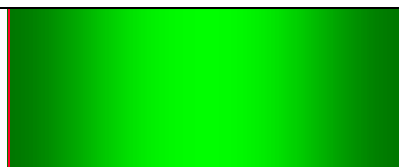
**111 Million Work Hour Reduction -
Equivalent to 62,960 Full-Time Employees**



Transformation Plan – Results to Date

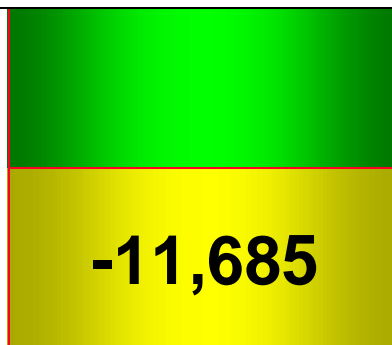
Career Complement Reductions

FY 2000



-10,533

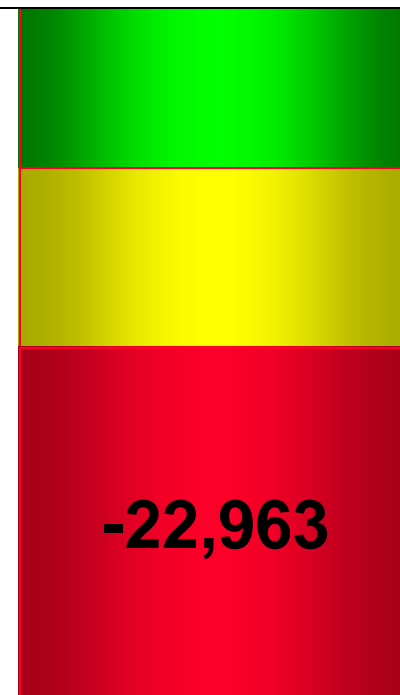
FY 2001



-11,685

-22,218

FY 2002



-22,963

-45,181



Transformation Plan - Results to Date

- **First Ever Expense Reduction – \$200 Million Below 2001 Level**
- **Labor Contracts – In Place to Provide Stability**
- **Record Setting Safety Performance**
- **Negotiated Rate Settlement/Expedited Implementation**
- **Delivered \$1.5 Billion of Cost Savings
Goal - \$5 Billion By 2006**



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